CANADIAN TIRE

annual report 1975

CANADIAN TIRE CORPORATION LIMITED

Canadian Tire Corporation, Limited

HOME OFFICE:

2180 Yonge Street, Toronto, Ontario M4V 2B9

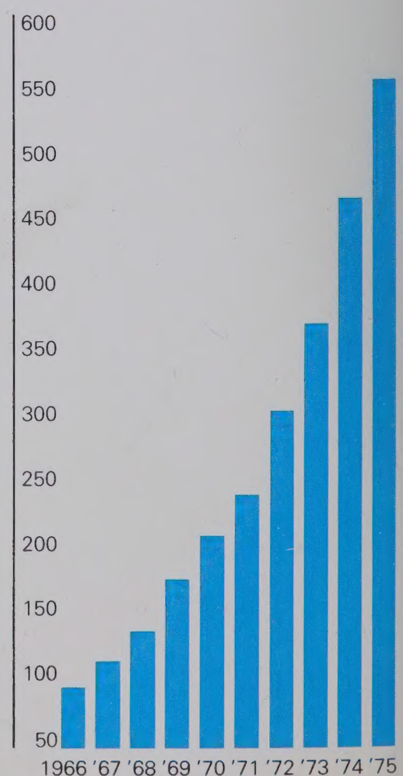
Front Cover:

Aerial view of our Mississauga Distribution Centre. High-rise "stacker" building (top right) and the two lower wings (far left and centre of photo) were completed during 1975—more than doubling the cubic foot capacity. Details of our distribution plant expansion during the year are on pages 20 & 21.

Stores at year-end	**1975**	1974
Ontario	**176**	174
Quebec	**64**	60
Nova Scotia	**19**	19
New Brunswick	**12**	12
Manitoba	**9**	9
Newfoundland	**6**	6
Saskatchewan	**5**	5
Prince Edward Island	**2**	2
Alberta	**2**	0
Total	**295**	287

99.9% of our 11,525 shareholders reside in Canada and own 99.6% of the total shares outstanding.

Gross Operating Revenue
($ millions)



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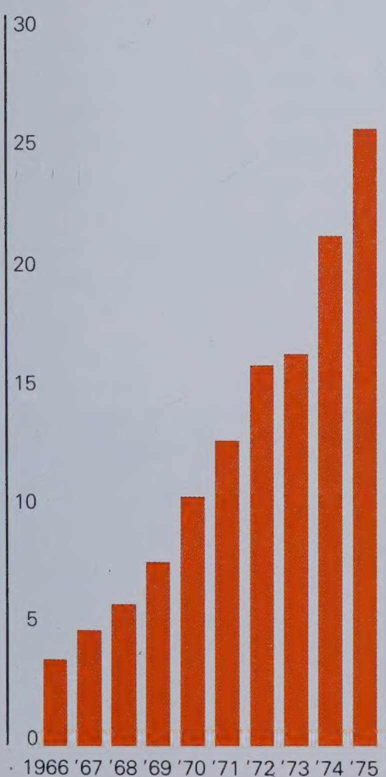
Financial Highlights

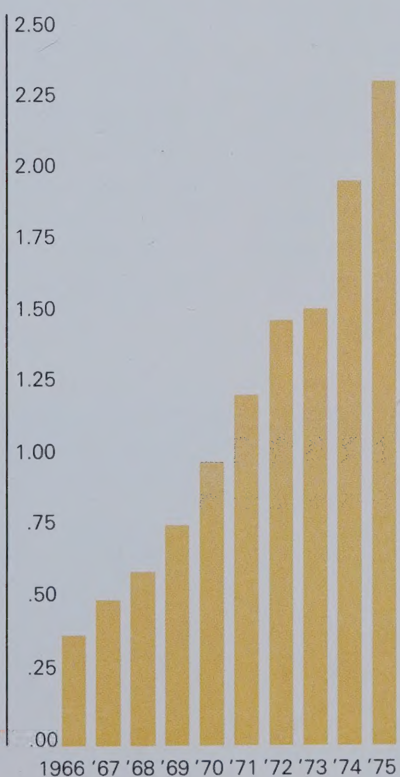
	1975	1974	Annual Increase
Gross operating revenue	$561,032,000	$472,323,000	18.8%
Net income	$ 25,793,000	$ 21,481,000	20.1%
*Net income per share	$2.32	$1.96	18.4%
Dividends	$ 4,217,000	$ 3,292,000	28.1%
*Dividends per share	38 cents	30 cents	26.7%
Earnings retained and reinvested	$ 21,576,000	$ 18,189,000	18.6%
Working capital	$109,706,000	$ 56,877,000	92.9%
Ratio of current assets to current liabilities	2.10	1.56	
Capital expenditures	$ 32,842,000	$ 35,008,000	
Shareholders' equity	$163,491,000	$136,418,000	19.8%
*Shareholder's equity per share	$14.73	$12.43	18.5%
Return on shareholders' equity	15.8%	15.7%	

**Combined Class A and common — based on weighted average number of shares outstanding during the year (1975 — 11,101,000 shares; 1974 — 10,974,000 shares).*

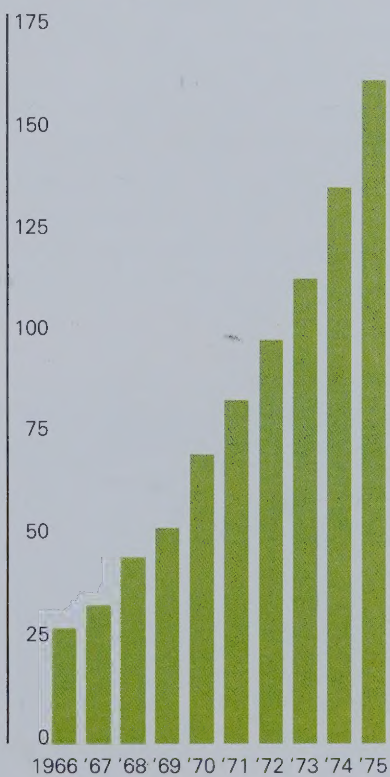
Net Income
($ millions)

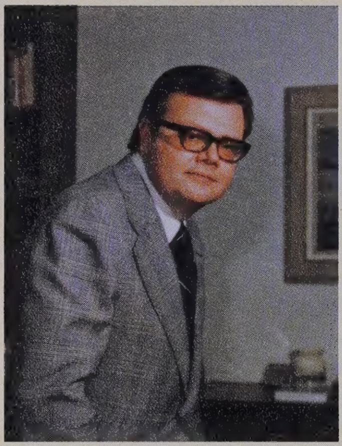


Earnings Per Share
(Dollars)

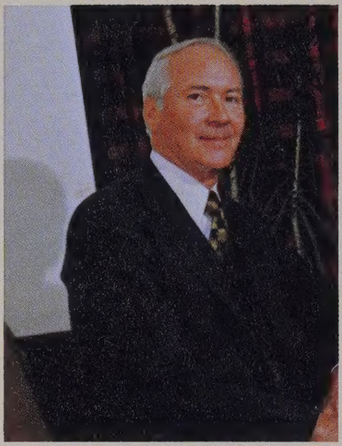


Shareholders' Equity
($ millions)





J. D. MUNCASTER
President



A. E. BARRON
Chairman of the Board

Directors' Report to the Shareholders

During 1975, sales of Canadian Tire dealers to the public increased by 24.1%, the highest rate of sales gain since 1968. However, corporate gross operating revenue—principally merchandise shipments to Canadian Tire dealers—increased by 18.8% during the year, indicating a substantial inventory correction on the part of our dealer organization. This condition was particularly evident during the fourth quarter when dealer sales to the public increased by almost 30%, compared with a 15% increase in the Company's sales to Canadian Tire dealers.

This slower growth in corporate revenues, along with continuing inflationary pressures, resulted in higher operating costs as a percentage of sales. These higher cost levels, slightly lower gross margins, higher net interest expenses and reduced profits from gasoline marketing activities resulted in income before taxes of $50,119,000—up 13.5% from $44,174,000 in 1974.

The Company's effective tax rate was reduced from 51.7% in 1974 to 49.6% in 1975 due to the 1% decrease in the corporate income tax rate and the 10% income tax surcharge being applicable only to the first four months of 1975. As a result, net income after taxes was $25,793,000 or $2.32 per share for 1975, compared with $21,481,000 or $1.96 per share for 1974—an increase of 20.1% in net income after taxes and an increase of 18.4% in earnings per share. Included in net income for both years were extraordinary gains on the sale of property, amounting to $517,000 in 1975 (4 cents per share) and $131,000 in 1974 (1 cent per share).

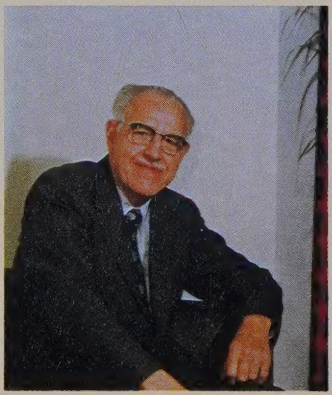
Entering 1975, one of the major challenges facing the Company was that of arresting the rapid increase in inventory levels experienced during 1974. As a result of more timely deliveries from suppliers, the application of revised inventory management strategies and control techniques, and the dedication of our people in that sector, the trend of rising inventories was turned around late in the first quarter of 1975. By year-end, inventories had been reduced to $54.9-million, a reduction of 25.2% from the level of $73.5-million a year earlier. Largely as a result of this dramatic shift in the level of inventory investment, net interest expenses in the fourth quarter were lower in dollar terms than during the same quarter of 1974.

Because of the desire to maintain high levels of liquidity during these uncertain economic times, during the

Board of Directors

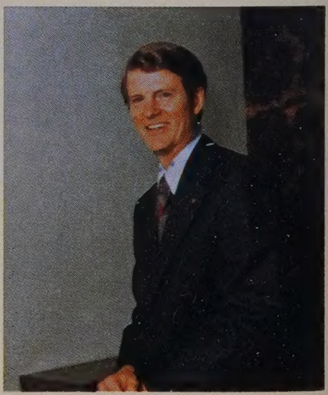
Photo of D. G. BILLES, *Director, is not available.*

A. J. BILLES *(at right)*, Past-President of Canadian Tire and co-founder of the Company, was invested with the Order of Canada in January, 1976.



A. J. BILLES

A. W. BILLES



A. D. BILLES

year the Company issued $30-million of 20-year Series C 10.75% Debentures, with sinking fund payments to begin in 1981. In addition, $17.5-million of short-term borrowings of Canadian Tire Acceptance were converted to 5-year notes bearing an average interest rate of 9.79%. As a result, working capital increased by $52.8-million during the year to a new high of $109.7-million. Through this external funding and the large reduction in inventory investment, cash and bank deposit receipts at year-end amounted to $48.5-million.

Capital expenditures during 1975 were $32.8-million, of which $23.7-million was invested in land acquisition and store construction to provide expanded retail capacity. Twenty new retail stores were opened during the year, eight being additional outlets and twelve being relocations into larger premises. Details of this program appear on pages 18 and 19 of this report.

During the year, $6.0-million was invested to complete the second phase of the automated Mississauga Distribution Centre. This new facility was placed in operation in January of 1976 and is performing at a highly satisfactory level.

Further modifications were made to the Sheppard Avenue Distribution Centre to expand its capacity and to reduce merchandise-handling costs. The remainder of the 1975 capital expenditures program was devoted to the construction of four self-serve gasoline stations and additions to our transportation fleet and other equipment.

Capital expenditures in 1976 are expected to approximate $35-million, with a very high proportion of the investment being in additional retail capacity, as no major additions to distribution facilities are planned for the current year. This program will be funded from existing resources and will not require external financing.

Surplus supplies of gasoline were readily available during 1975 and keen price competition existed throughout the year. Consequently, both gallonage and earnings were adversely affected. This unsatisfactory situation continues in the early part of 1976 with no indication of improvement being evident.

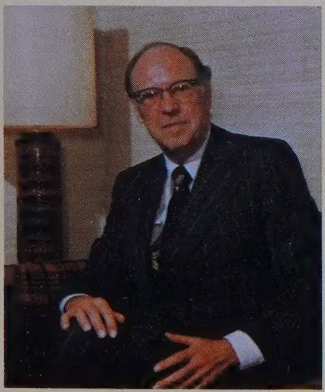
Cantire Products Limited, the Company's remanufacturing subsidiary, experienced a very satisfactory increase in earnings in 1975, despite a relatively small increase in sales.

Canadian Tire Acceptance continued to grow rapidly with 236,000 new accounts being opened over the year, bringing the balance to more than 700,000 at year-end. Despite the costs associated with this rapid growth, net income increased to $508,000, up sharply from $179,000 in 1974 —largely due to lower interest rates during the year.

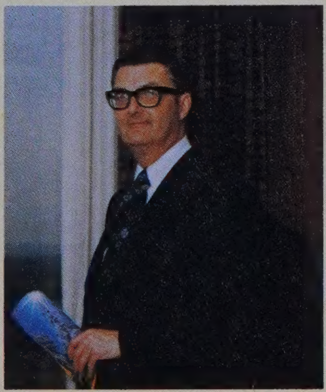
Timberline Home Centres were opened in 1975 adjacent to Canadian Tire Associate Stores in Stratford and Fort Erie, Ontario. For the partial year of operation of this experimental project, a net loss of an immaterial amount was sustained.

The quarterly dividend payable on June 1, 1976 has been declared in the amount of 12 cents per share, an increase from the previous quarterly rate of 10 cents per share.

Profit sharing awards, and the Company's contribution to the employee share purchase plan, amounted to almost $4-million—up from $3.4-million for 1974. Because of an increased number of participants and a higher earnings base, a reduced award relative to employee earnings resulted, despite the $600,000 increase in aggregate awards. The attitude of participation and involvement fostered by the Company's profit sharing and share ownership philosophy remains one of our strongest assets.



A. L. SHERRING, C.A.



R. LAW, Q.C.

C. R. KNOLL

R. J. HOBBS

Continued from page 3...

Although the anti-inflation program of the federal government is likely to result in a reduction in the growth of real disposable income during 1976 and therefore may be expected to adversely affect consumer demand, we believe that the positioning of Canadian Tire in the marketplace will result in continuing strong sales performance. As in past recessionary periods, Canadian Tire's product mix, which is concentrated in lower dollar value items and products of a do-it-yourself nature—combined with the Company's reputation for value—will again serve to sustain its growth. As evidence of this continuing momentum, sales of Canadian Tire dealers to the public increased by 26.5% during the first two months of this year.

In looking to 1976, in view of the reductions in the relative level of dealer inventories during 1975, which included a virtual sell-out of most winter merchandise, the Company's revenues are likely to reflect the rebuilding of dealer inventory positions, particularly during the first and third quarters.

With a high degree of optimism prevalent within the dealer organization, the continuing growth in retail capacity and the need to rebuild dealer inventory positions, we anticipate strong revenue growth during the year. Although gross margins may be difficult to maintain because of our desire to strengthen our position of price leadership in a highly competitive marketplace, the combination of strong revenue growth, some moderation of upward cost pressures and more effective asset deployment should result in satisfactory earnings growth in 1976.

On behalf of the Board,

Dated April 2, 1976.

Alex E. Barron

J.D. Muncaster

Alex E. Barron
Chairman of the Board

J. D. Muncaster
President and Chief Executive Officer

CANADIAN TIRE

Registrar & Transfer Agent	National Trust Company, Limited, Toronto, Montreal & Calgary
Solicitors	Blackwell, Law, Treadgold & Armstrong
Bankers	Canadian Imperial Bank of Commerce The Toronto-Dominion Bank Chicago City Bank and Trust Company
Auditors	Deloitte, Haskins & Sells, Chartered Accountants

More Canadians shopped "our way" in 1975...

Major renovations at our Oakville *(Ontario) store more than doubled the retail capacity in our accelerated program of expanding facilities in existing market areas.*

Below: In 1975, Auto Centres incorporated into new store buildings averaged 12.3 service bays each. All new service facilities include the latest electronic equipment. Over 2,100 bays were in operation at year end.

Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 1975 *(with 1974 figures for comparison)*

	1975	1974
GROSS OPERATING REVENUE	$561,031,731	$472,323,224
OPERATING EXPENSES:		
Cost of merchandise sold and all expenses except for the undernoted items	492,645,053	412,977,177
Depreciation and amortization	7,324,216	6,494,328
Employee deferred profit sharing and share purchase plans	3,988,123	3,382,577
Interest:		
Long-term debt	6,833,797	3,404,552
Other	3,196,231	3,620,493
Total operating expenses	513,987,420	429,879,127
	47,044,311	42,444,097
Interest income [Note 5]	3,074,782	1,729,440
INCOME BEFORE INCOME TAXES	50,119,093	44,173,537
Provision for income taxes:		
Current	24,063,451	22,687,114
Deferred	779,534	135,772
Total provision for income taxes	24,842,985	22,822,886
Income before extraordinary gain	25,276,108	21,350,651
Gain on sale of property (less applicable income taxes: 1975 – $99,164; 1974 – $21,878)	516,993	130,819
NET INCOME FOR THE YEAR	25,793,101	21,481,470
RETAINED EARNINGS AT BEGINNING OF THE YEAR	104,564,489	86,375,095
	130,357,590	107,856,565
DEDUCT:		
Dividends paid:		
Class A shares	2,906,293	2,257,076
Common shares	1,311,000	1,035,000
	4,217,293	3,292,076
RETAINED EARNINGS AT END OF THE YEAR	$126,140,297	$104,564,489
Earnings per share before extraordinary gain	$2.28	$1.95
Earnings per share relating to gain on sale of property	0.04	0.01
EARNINGS PER SHARE	$2.32	$1.96

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1975 *(with 1974 figures for comparison)*

	1975	1974
FUNDS PROVIDED:		
Income before extraordinary gain	$ 25,276,108	$21,350,651
Add charges not involving an outlay of funds:		
Depreciation and amortization	7,324,216	6,494,328
Amortization of debenture discount and issue expense	50,454	31,730
Deferred income taxes	779,534	135,772
Funds provided from operations	33,430,312	28,012,481
Issue of medium-term promissory notes	17,500,000	—
Issue of Sinking Fund Debentures [Note 2]	29,416,846	29,720,365
Issue of Class A shares	5,496,444	3,762,806
Increase in mortgages payable	696,190	515,099
Disposals of property and equipment	1,558,013	1,267,467
Decrease in long-term portion of income debentures	2,462,292	—
Total funds provided	90,560,097	63,278,218

	1975	1974
FUNDS APPLIED:		
Additions to property and equipment:		
Land	3,257,820	7,047,156
Buildings	19,658,385	21,524,372
Fixtures and equipment	6,588,363	3,850,823
Automotive equipment	827,358	1,281,925
Leasehold improvements	2,510,399	1,303,635
	32,842,325	35,007,911
Increase in long-term portion of income debentures	—	1,379,998
Increase in mortgages receivable	680,914	418,233
Investment in shares of 50%-owned company	(9,999)	10,000
Dividends paid:		
Class A shares	2,906,293	2,257,076
Common shares	1,311,000	1,035,000
Total funds applied	37,730,533	40,108,218
Increase in working capital for the year	52,829,564	23,170,000
Working capital at beginning of the year	56,876,903	33,706,903
WORKING CAPITAL AT END OF THE YEAR	$109,706,467	$56,876,903

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

Consolidated Balance Sheet

ASSETS

	1975	1974
CURRENT ASSETS:		
Cash and bank deposit receipts	$ 48,494,220	$ 5,364,787
Accounts and loans receivable	58,092,529	47,235,304
Merchandise inventories	54,910,063	73,454,149
Income debentures of Canadian Tire dealers — amounts due within one year	1,335,981	1,585,454
	162,832,793	127,639,694
Acceptance company:		
Charge account receivables	46,095,973	31,179,960
Other	156,175	153,363
Total current assets	209,084,941	158,973,017
INVESTMENTS:		
Income debentures of Canadian Tire dealers — less amounts due within one year — at cost	2,632,525	5,094,817
Shares of 50%-owned company	1	10,000
Total investments	2,632,526	5,104,817
PROPERTY AND EQUIPMENT:		
Land	34,601,809	32,321,218
Buildings	112,482,013	92,882,395
Fixtures and equipment	23,358,964	16,781,110
Automotive equipment	5,287,804	4,524,038
Leasehold improvements	5,889,635	3,356,275
	181,620,225	149,865,036
Less accumulated depreciation and amortization	37,364,048	30,085,948
Net property and equipment	144,256,177	119,779,088
OTHER ASSETS:		
Mortgages receivable	1,391,798	710,884
Deferred income tax charge	—	205,056
Debenture discount and issue expense — less accumulated amortization of $137,066	1,150,614	617,914
Total other assets.	2,542,412	1,533,854
TOTAL	$358,516,056	$285,390,776

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

CANADIAN TIRE

S AT DECEMBER 31, 1975 *(with 1974 figures for comparison)*

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
CURRENT LIABILITIES:		
Accounts payable	$ 39,300,365	$ 37,554,291
Accrued liabilities and coupons outstanding	33,692,036	29,267,461
Income taxes payable	1,651,719	6,772,739
Loans payable to directors and shareholders	1,688,909	1,333,253
Mortgages payable — amounts due within one year	456,835	386,829
	76,789,864	75,314,573
Acceptance company:		
Bank indebtedness	275,000	519,000
Short-term promissory notes	16,685,000	22,881,000
Accounts payable	5,272,947	3,381,541
Income taxes payable	355,663	—
Total current liabilities	99,378,474	102,096,114
LONG-TERM DEBT [Note 2]:		
Medium-term promissory notes of acceptance company	17,500,000	—
Mortgages payable	2,572,488	1,876,298
Sinking Fund Debentures	75,000,000	45,000,000
Total long-term debt	95,072,488	46,876,298
DEFERRED INCOME TAXES	574,478	—
SHAREHOLDERS' EQUITY:		
Capital stock [Notes 3 & 4]:		
Authorized:		
15,000,000 Class A non-voting shares without par value		
3,450,300 common shares without par value		
Issued and fully paid:		
7,685,518 Class A shares (1974 — 7,549,417 shares)	36,458,131	30,961,687
3,450,000 common shares	892,188	892,188
	37,350,319	31,853,875
Retained earnings	126,140,297	104,564,489
Total shareholders' equity	163,490,616	136,418,364
TOTAL	$358,516,056	$285,390,776

Approved by the Board: J. D. MUNCASTER, *Director;* A. L. SHERRING, *Director.*

1 Significant Accounting Policies

Principles of consolidation:

The consolidated financial statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries, all of which are wholly-owned.

The company's 50% interest in Timberline Home Centres Limited is accounted for on the equity method.

Inventories:

Merchandise inventories have been valued at the lower of cost or estimated net realizable value less normal profit margin, with cost being determined substantially on a first-in, first-out basis.

Property and equipment:

Property and equipment are stated at cost. Depreciation is provided under the declining-balance method at various annual rates (buildings — 5% and 10%, fixtures and equipment — 20%, and automotive equipment — 30%). Amortization of leasehold improvements is provided on a straight-line basis over the terms of the respective leases. A full year's depreciation is provided on all retail stores opened during the year, or under construction at the year end. Depreciation of major warehouse facilities is commenced in the month the facilities are placed into service. Internal development costs, interest and realty taxes pertaining to construction in progress and land held for development are expensed as incurred.

Debenture discount and issue expense:

Debenture discount and issue expense is amortized on a straight-line basis over the terms of the debentures.

Income taxes:

The companies account for income taxes using the deferral method of tax allocation, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes.

Earnings per share:

The earnings per share figures are calculated using the weighted average number of shares outstanding during the year.

2 Long-term Debt

	1975	1974
Medium-term promissory notes of acceptance company:		
9%, due February 17, 1980	$ 5,000,000	$ —
9½%, due April 4, 1980	5,000,000	—
10½%, due December 16, 1980	7,500,000	—
	17,500,000	—
Mortgages payable — less amounts due within one year	2,572,488	1,876,298
Sinking Fund Debentures:		
8½%, Series A	15,000,000	15,000,000
9¼%, Series B	30,000,000	30,000,000
10¾%, Series C	30,000,000	—
	75,000,000	45,000,000
Total long-term debt	$95,072,488	$46,876,298

Mortgages payable:

Mortgages have been assumed on the acquisition of 18 properties. These mortgages mature at various times between 1976 and 1999, and bear interest at various rates up to 9½%.

Sinking Fund Debentures:

The 8½% Sinking Fund Debentures, Series A (unsecured) mature on June 1, 1991, and are redeemable, in whole or in part, at a premium of 7% to January 14, 1976, decreasing ½% annually thereafter. Under the Trust Indenture, a sinking fund must be provided to redeem $500,000 of Series A Debentures at par in each of the years 1977 to 1991 inclusive. In addition to the mandatory sinking fund payments, the company has the non-cumulative right to make optional sinking fund payments sufficient to retire in each of the years 1977 to 1991 inclusive an additional principal amount of Series A Debentures not in excess of $250,000.

The 9¼% Sinking Fund Debentures, Series B (unsecured) mature on July 15, 1994, and are redeemable, in whole or in part, at a premium of 9¼% to January 14, 1976, decreasing ½% annually thereafter. Under the Trust Indenture, a sinking fund must be provided to redeem $1,500,000 of Series B Debentures at par in each of the years 1979 to 1993 inclusive.

During the year, the company issued $30,000,000 principal amount of 10¾% Sinking Fund Debentures, Series C (unsecured) due August 15, 1995, for $30,000,000 less commission and other issue expenses. The Series C Debentures are redeemable, in whole or in part, at a premium of 10¾% to February 14, 1977, decreasing 0.65% annually thereafter. Under the Trust Indenture, a sinking fund must be provided to redeem $1,200,000 of Series C Debentures at par in each of the years 1981 to 1994 inclusive. In addition to the mandatory sinking fund payments, the company has the non-cumulative right to make optional sinking fund payments sufficient to retire in each of the years 1981 to 1994 inclusive an additional principal amount of Series C Debentures not in excess of $300,000.

The Trust Indentures impose certain restrictions on the company. To December 31, 1975, all of the conditions of the Trust Indentures have been met.

3 Capital Stock

Issue of Class A Shares:

During 1975, the company issued 136,101 Class A shares for cash in the total amount of $5,496,444. All of these shares were issued in accordance with the conditions below:

Conditions of Class A Shares:

The conditions attached to the Class A shares prohibit the issue of Class A shares unless either:

(a) such shares are being issued to, or for the benefit of, employees of the company, or employees of any subsidiary, or authorized dealers, or the employees of authorized dealers, pursuant to a scheme or plan in existence at such time; or

(b) the authorization of the holders of Class A shares shall first have been obtained.

The holders of Class A shares are entitled to receive a preferential cumulative dividend at the rate of 4 cents per share per annum and, after payment of a dividend on each of the common shares at a similar rate, are entitled to participate, pro rata, in further dividends declared and paid in each year.

Share options:

Under the share option arrangement (see Note 4), certain senior officers engaged directly in the management of the company have been granted options to purchase Class A shares of the company. The options are exercisable at any time during a ten-year period from the date granted as follows:

Date Granted	Expiry Date	Price	Number of Shares
February 27, 1970	February 28, 1980	$20.287	17,259
February 26, 1971	February 26, 1981	24.975	25,695
February 29, 1972	February 28, 1982	35.325	23,677
February 28, 1973	February 28, 1983	54.900	17,656
February 28, 1974	February 28, 1984	40.950	20,050
January 2, 1975	January 2, 1985	34.537	46,479
January 2, 1976	January 2, 1986	41.175	38,005
			188,821

The exercise of these share options would have no material effect on the reported earnings per share.

4 Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid, or payable, by the company to the directors and senior officers of the company, as a group, during the fiscal year ended December 31, 1975 was $585,900 (1974 – $496,300). In addition, with respect to the fiscal year ended December 31, 1975, pursuant to a share purchase arrangement and a share option arrangement authorized by resolution of the directors, the company:

(a) paid to certain senior officers, engaged directly in the management of the company, amounts calculated by reference to the earnings of the company for such fiscal year which, after provision for personal income tax, provided sums sufficient in the aggregate to pay the subscription price ($107,513) of 2,350 Class A shares of the company required by this arrangement to be subscribed for by such senior officers, at the market value thereof as at January 2, 1976, namely $45.750 per share, and

(b) granted to certain senior officers, engaged directly in the management of the company, options to purchase 38,005 Class A shares of the company at a price of $41.175 per share, being 90% of the market value thereof as at January 2, 1976, such options to be exercisable at any time up to January 2, 1986, at which time they expire.

It is presently proposed that the share purchase arrangement and share option arrangement will be continued in the future, and may be extended to certain other senior officers of the company from time to time, engaged or to be engaged, directly in the management of the company. Also with respect to the fiscal year ended December 31, 1975, the company paid to the Trustees of the Canadian Tire Deferred Profit Sharing Plan for the benefit of senior officers, amounts determined on the same basis as for other employees of the company.

5 Interest Income

Interest income arose from the following sources:

	1975	1974
Inventory advances to dealers	$1,606,320	$1,128,673
Income debentures	351,709	368,089
Short-term investments and bank deposit receipts	957,663	101,740
Other	159,090	130,938
	$3,074,782	$1,729,440

Interest earned on charge account receivables of Canadian Tire Acceptance Limited is included in gross operating revenue in the consolidated statement of income and retained earnings.

6 Leases

As at December 31, 1975, the companies are committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) of properties under 56 leases with termination dates between 1976 and 2000. The minimum annual payments required in each of the next five years are as follows:

Year	Minimum Annual Rentals	Year	Minimum Annual Rentals
1976	$2,955,000	1979	$2,603,000
1977	2,886,000	1980	2,534,000
1978	2,630,000		

7 Commitments

As at December 31, 1975, the companies had commitments of $12,070,000 for acquisition of properties, expansion of retail store facilities and acquisition of a company.

8 Anti-Inflation Act

The company and its subsidiaries are subject to the Anti-Inflation Act which was enacted by the Government of Canada effective on October 14, 1975 to provide for the restraint of profit margins, prices, employee compensation and dividends. In view of the uncertainties of interpretation and implementation of the legislation, the effect, if any, on these financial statements is not fully determinable at this time. However, based on a preliminary study, it would appear that the legislation has no significant effect on the financial statements for the year ended December 31, 1975.

Under the present legislation, the company is not permitted to declare or pay dividends in excess of $5,370,000 during the twelve-month period ending October 13, 1976.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Tire Corporation, Limited as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 2, 1976

Deloitte, Haskins & Sells
Chartered Accountants

CANADIAN TIRE 10-Year

		Year 1975	1974
Operating Data:	Gross operating revenue	$ 561,032	472,323
	Per cent annual increase	18.8%	24.8%
	Income before taxes	$ 50,119	44,174
	Per cent of gross operating revenue	8.9%	9.4%
	Income taxes	$ 24,843	22,823
	Net income before extraordinary gain	$ 25,276	21,351
	Per cent annual increase	18.4%	30.7%
	Net income including extraordinary gain	$ 25,793	21,481
	*Earnings per share before extraordinary gain	$ 2.28	1.95
	*Earnings per share including extraordinary gain	$ 2.32	1.96
	Provision for depreciation	$ 7,324	6,494
	Cash flow	$ 33,947	28,143
	*Cash flow per share	$ 3.06	2.56
	Dividends paid	$ 4,217	3,292
Financial Position:	Working capital	$ 109,706	56,877
	Capital expenditures	$ 32,842	35,008
	Fixed assets — net	$ 144,256	119,779
	Shareholders' equity	$ 163,491	136,418
	*Shareholder's equity per share	$ 14.73	12.43
	Return on shareholders' equity	15.8%	15.7%
Statistics:	Number of Class A shareholders	10,060	10,467
	Number of common shareholders	1,465	1,528
	Number of Associate Stores	295	287
	Number of gasoline stations	58	54

**Based on the weighted average number of sha*

Comparative Summary

Dollar amounts are expressed in thousands
(except per share figures)

1973	1972	1971	1970	1969	1968	1967	1966
378,587	309,174	246,758	212,405	180,684	143,887	115,352	97,716
22.5%	25.3%	16.2%	17.6%	25.6%	24.7%	18.0%	20.3%
33,020	30,745	25,531	21,172	16,349	12,687	10,017	7,542
8.7%	9.9%	10.3%	10.0%	9.0%	8.8%	8.7%	7.7%
16,689	14,763	12,818	11,114	8,615	6,679	5,110	3,891
16,331	15,982	12,713	10,058	7,734	6,008	4,923	3,655
2.2%	25.7%	26.4%	30.0%	28.7%	22.0%	34.7%	29.0%
16,410	16,100	12,955	10,448	7,852	6,008	4,926	3,681
1.50	1.47	1.18	.95	.75	.60	.50	.38
1.51	1.48	1.20	.98	.76	.60	.50	.38
4,514	3,354	2,623	2,282	1,892	1,355	1,053	883
21,127	19,623	15,451	12,580	9,689	7,385	5,964	4,659
1.94	1.81	1.43	1.18	.94	.74	.60	.48
2,944	2,499	2,166	1,928	1,170	899	761	584
33,707	40,083	35,969	14,911	11,163	12,867	7,217	6,186
27,332	18,101	10,678	12,608	10,064	6,946	4,663	3,955
92,402	69,893	55,394	47,742	37,506	29,602	24,011	20,458
114,466	98,482	83,774	71,489	53,144	45,622	34,143	28,683
10.49	9.06	7.74	6.72	5.15	4.57	3.44	2.95
14.3%	16.3%	15.5%	14.6%	14.8%	13.2%	14.4%	12.8%
10,250	8,626	7,064	5,223	4,021	3,274	2,229	1,814
1,514	1,268	1,188	1,047	947	865	782	715
283	269	260	254	245	234	226	225
52	49	45	40	32	29	27	26

tstanding during the year and adjusted for a 5-for-1 split of July 12, 1966 and a 3-for-1 split of May 13, 1970.

Statement of Income and Retained Earnings

for the year ended December 31, 1975 *(with 1974 figures for comparison)*

	1975	1974
GROSS OPERATING REVENUE	$10,356,602	$7,567,980
OPERATING EXPENSES:		
Interest on borrowed funds:		
Short-term debt	1,730,560	2,152,988
Medium-term debt	776,193	—
Provision for credit losses	2,558,810	1,817,713
Other	4,268,403	3,216,197
Total operating expenses	9,333,966	7,186,898
INCOME BEFORE INCOME TAXES	1,022,636	381,082
Provision for income taxes	514,954	202,233
NET INCOME FOR THE YEAR	507,682	178,849
Retained earnings at beginning of the year	1,285,382	1,106,533
RETAINED EARNINGS AT END OF THE YEAR	$ 1,793,064	$1,285,382

The accompanying notes, on pages 16 & 17, are an integral part of these financial statements.

CANADIAN TIRE ACCEPTANCE LIMITED

Statement of Changes in Financial Position

for the year ended December 31, 1975 *(with 1974 figures for comparison)*

	1975	1974
FUNDS PROVIDED:		
Net income for the year	$ 507,682	$ 178,849
Add charges not involving an outlay of funds:		
Depreciation and amortization	80,354	64,110
Funds provided from operations	588,036	242,959
Disposal of property and equipment	—	6,451
Issue of medium-term promissory notes	17,500,000	—
Issue of preference shares	1,800,000	1,000,000
Total funds provided	19,888,036	1,249,410
FUNDS APPLIED:		
Additions to property and equipment:		
Office furniture and equipment	144,680	54,623
Leasehold improvements	4,340	16,759
Total funds applied	149,020	71,382
INCREASE IN WORKING CAPITAL FOR THE YEAR	19,739,016	1,178,028
Working capital at beginning of the year	4,390,741	3,212,713
WORKING CAPITAL AT END OF THE YEAR	$24,129,757	$4,390,741

The accompanying notes, on pages 16 & 17, are an integral part of these financial statements.

Auditors' Report to the Shareholders

We have examined the balance sheet of Canadian Tire Acceptance Limited as at December 31, 1975 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 2, 1976

Deloitte, Haskins & Sells
Chartered Accountants

Balance

ASSETS

	1975	1974
CURRENT ASSETS:		
Cash	$ 140	$ 140
Accounts receivable	10,490	16,187
Charge account receivables (less allowance for credit losses, (1975 – $1,277,270; 1974 – $1,151,555)	46,095,973	31,179,960
Due from parent company	466,079	–
Income taxes recoverable	–	103,905
Prepaid expenses	145,685	33,131
Total current assets	46,718,367	31,333,323
PROPERTY AND EQUIPMENT:		
Office furniture and equipment	407,697	263,017
Leasehold improvements	158,119	153,779
Motor vehicle	3,689	3,689
	569,505	420,485
Less accumulated depreciation and amortization	306,198	225,844
Net fixed assets	263,307	194,641
TOTAL	$46,981,674	$31,527,964

The notes below are an integral part of these financial statements.

Notes to the Financial Statements

1 Significant Accounting Policies

Charge account receivables: Charge account receivables are due in terms not exceeding twenty-four months and, in accordance with recognized trade practice, are included in current assets.

Property and equipment: Property and equipment are stated at cost. Depreciation is provided under the declining-balance method at annual rates of 20% for office furniture and equipment and 30% for the motor vehicle. Amortization of leasehold improvements is provided on a straight-line basis over a period of five years.

Revenue recognition: Discounts on charge account receivables purchased from dealers are taken into revenue at the time the receivables are purchased. The accounts are maintained on a cycle-billing basis, and service charges are accrued each month on balances outstanding at the close of each cycle.

2 Short-term Promissory Notes and Bank Indebtedness

The short-term promissory notes of the company are unconditionally guaranteed by its parent company, Canadian Tire Corporation, Limited. The company has available bank standby credit to cover its obligation for the repayment of authorized notes outstanding from time to time. In addition, the parent company has guaranteed the bank indebtedness amounting to $275,000.

3 Medium-term Promissory Notes

9%, due February 17, 1980	$ 5,000,000
9½%, due April 4, 1980	$ 5,000,000
10½%, due December 16, 1980	$ 7,500,000
	$17,500,000

The medium-term promissory notes of the company are unconditionally guaranteed by its parent company, Canadian Tire Corporation, Limited.

Incorporated under the Laws of the Province of Ontario

Sheet AS AT DECEMBER 31, 1975 *(with 1974 figures for comparison)*

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
CURRENT LIABILITIES:		
Bank indebtedness [Note 2]	$ 275,000	$ 519,000
Accounts payable	5,272,947	3,381,541
Income taxes payable	355,663	–
Short-term promissory notes [Note 2]	16,685,000	22,881,000
Due to parent company	–	161,041
Total current liabilities	22,588,610	26,942,582
MEDIUM-TERM PROMISSORY NOTES [Note 3]	17,500,000	–
SHAREHOLDERS' EQUITY:		
Capital stock [Note 4]:		
Authorized:		
1,000,000 5% non-cumulative, preference shares of a par value of $10 each, redeemable at amount paid thereon		
200,000 common shares of no par value		
Issued and fully paid:		
500,000 preference shares (1974 – 320,000)	5,000,000	3,200,000
100,000 common shares	100,000	100,000
	5,100,000	3,300,000
Retained earnings	1,793,064	1,285,382
Total shareholders' equity	6,893,064	4,585,382
TOTAL	$46,981,674	$31,527,964

Approved by the Board: B. R. WILSON, *Director;* J. D. MUNCASTER, *Director.*

4 Capital Stock

Under articles of amendment dated June 4, 1975, the company increased its authorized 5% non-cumulative preference shares of a par value of $10 each from 500,000 to 1,000,000.

During the year, the company issued for cash to its parent company, Canadian Tire Corporation, Limited, 180,000 preference shares at the price of $10 per share.

5 Remuneration of Directors and Senior Officers

The total remuneration of directors and senior officers, as defined in The Business Corporations Act, Ontario, was $225,663 in 1975 (1974 – $193,342).

6 Anti-Inflation Act

The company is subject to the Anti-Inflation Act which was enacted by the Government of Canada effective on October 14, 1975 to provide for the restraint of profit margins, prices, employee compensation and dividends. As the regulations for financial institutions have not yet been issued by the government, the effect, if any, on these financial statements is not determinable at this time.

7 Subsequent Event

On January 30, 1976, the company entered into an agreement for the purchase of equipment in the amount of $252,000.

Retail expansion reveals trend to larger stores

Interior decor provides graphic identification of product areas.

Canadian Tire's growth in marketing capacity continued its forward momentum as the Company invested $32.8-million for new, enlarged and renovated facilities to expand consumer shopping opportunities. The level of our 1975 building program was the second highest in our experience and only $2.2-million below the record $35.0-million invested in fixed assets during the year previous.

Expenditures amounted to $23.7-million for retail store construction and related land acquisitions; $6.0-million for the completion of two expansion phases at our Mississauga Distribution Centre, and $360,000 for modifications to our Sheppard Avenue distribution facility. The balance was invested in expanded petroleum marketing facilities, additions to our long-distance hauling fleet and various equipment requirements. After the allowance for depreciation and amortization, net fixed assets of $144.3-million at year-end represented a gain of 20.4 per cent over 1974, and were seven times the level of ten years ago.

Our retail expansion program provided for the opening of 20 stores during the year—eight in new markets and 12 relocations in existing markets, where studies indicated our share of the consumer dollar was limited by under-sized facilities. Six additional retail facilities were near completion as the year ended, with openings scheduled for early 1976.

Expansion in new markets included four stores in high-growth areas in the Province of Quebec, two in prospering Ontario centres and two in Edmonton—the first Canadian Tire outlets opened in Alberta. Both Edmonton stores have retail areas in the 24,000 square foot range, providing sufficient space to comfortably display our product lines with room for new boutique arrangements of products around the stores' periphery. Two of the Quebec stores—Montreal (Carrefour) and Sept Iles—are also in our "major store" category. Adjoining Auto Centres in all the new buildings provide a complete range of automotive services.

Our acceptance in Western Canada has been outstanding, encouraging rapid expansion in this market. Stores in the three western provinces numbered 16 at year-end, and our first store in Calgary and a second unit in Saskatoon are scheduled for opening by mid-1976. Four additional stores are in early planning stages, with our longer-range objective being the opening of eight new stores in Alberta, six in Saskatchewan and two in Manitoba within the next three years.

We expect our retail growth in Quebec to continue at a level of three or four new stores, and a similar number of replacement units, for several years to bring Canadian Tire products to new markets and to provide greater exposure of our merchandise lines. In pursuit of this objective in Ontario, three stores were substantially enlarged and two others renovated in 1975.

The current scale of our retail expansion is more accurately gauged in terms of added retail footage, rather than by the number of stores built or leased over the year. In the major market areas, the trend is to open facilities with retail areas of up to 40,000 square feet with integrated service centres. A parallel objective is to replace most of our stores below

New store at *10255 Mayfield Road,* Edmonton—one of two major-sized units opened in the Alberta capital during the year.

North-central Toronto store, relocated in *Towne & Countrye Square,* has the largest retail area of our 295 associate stores.

3,000 square feet, or under $½-million in annual turnover, with considerably larger units over the next several years. The minimum capacity for any store now being built is $2-million in annual sales.

Our three largest replacement stores—Toronto's Towne & Countrye Square, Sarnia and Stoney Creek—were take-overs of leasehold facilities with retail areas upward of 24,000 square feet. The Toronto store's retail area—over 42,000 square feet—is the largest of our 295 associate stores, though Quebec City's free-standing Boulevard Hamel building still leads in "total functional area" on the site.

As a major tenant, Canadian Tire anchors the 75-store centre in Toronto's north-central suburbs with Woolco, The Bay and Loblaws anchoring other key locations. The 24-bay Auto Centre incorporated into our premises is the largest such installation in a store building, by two bays, and is exceeded only by the 29 bays at the free-standing service centre across from our 839 Yonge Street store. The Towne & Countrye mall's positioning at a busy Yonge Street intersection attracts heavy customer traffic.

Our recent involvement in a number of shopping centres, mainly in eastern markets, is related to the availability of leases on favourable terms and the apparent advantages in moving to an established location from our outgrown or by-passed retail facility in the area. The "drawing power" of a particular shopping concourse is a determining factor when considering the suitability of a leasehold opportunity.

The trend to increased footage in our facilities is also evident in the current sizes of auto service centres integrated into our new store buildings. By placing corresponding emphasis on this important segment of our business and by installing the most modern equipment in the field, we have achieved "total automotive service" in our latest new and replacement stores.

Stores opened in 1975 averaged 12.3 service bays each of which 60 per cent were equipped with hoists—a doubling of the ratio of hoists to bays in only three years. All car servicing facilities now being built—even our smallest—include the latest electronic equipment for engine diagnosis and analysis, wheel alignment and tire balancing to increase the productivity and dollar-volume per bay.

Attractive reception and waiting areas, in a multi-colour decor "package" for easy maintenance and eye-appeal, are being incorporated into our Auto Centres. Combined with the retail floors which they adjoin, our newest premises reveal the extent to which Canadian Tire is designing stores to meet the needs of the customers and the communities we serve.

20 stores opened during the year... eight in new markets

Stores opened in 1975: (*Indicates new market)

Ontario: Arnprior, Cobourg, Fort Frances, Pembroke, Port Elgin,* Port Perry, Sarnia, Stoney Creek and three in Toronto (Carrier Road,* Jane Street and Towne & Countrye).

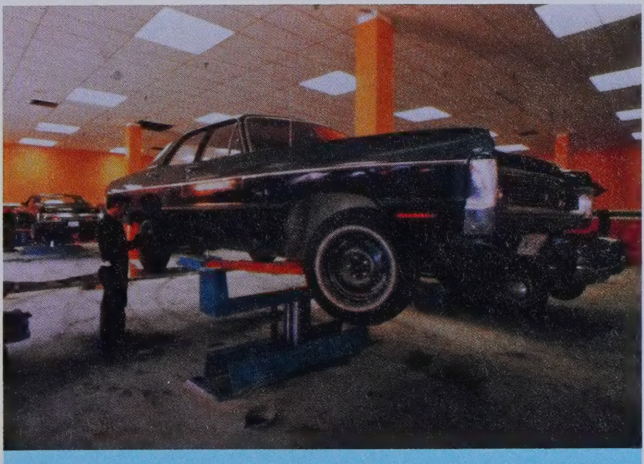
Quebec: Beloeil, Gatineau, Jonquière, La Malbaie,* two in Montreal (Carrefour* and Cavendish Mall*) and Sept Iles.*

Alberta: Two in Edmonton (Capilano* and Centennial*).

Eight of the projects listed above, as well as the additions to Mississauga Distribution Centre, were built by Tantalus Construction Company, Limited, a wholly-owned subsidiary—established in 1974—with offices in Toronto and Calgary.

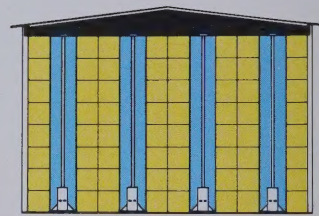
During the year, Tantalus engineers dismantled a vacated 27,000 square foot associate store in Hull, P.Q., and moved the sections 45 miles by tractor-trailer to a new site in Arnprior, Ontario. The piece-by-piece reassembly of the building saved close to a third of conventional construction costs to build the identical replacement store from the ground up. Direct control by Tantalus over construction and engineering details, on an on-going basis, provides appreciable time- and cost-saving advantages to the Company as a whole.

Four self-serve gasoline stations—two in Ontario and two in Quebec—were built during the year, bringing our total number of petroleum marketing facilities to 58.



Panoramic view of service floor from customers' waiting room.

Hi-rise "stacker" building—one of the additions to *Mississauga Centre* in 1975.



Mississauga Centre's capacity more than doubled by addition of new hi-rise storage and retrieval facilities

Completion of the second phase of our Mississauga Centre more than doubled the cubic footage of the hi-rise storage and retrieval complex. The original structure, which began operations in 1973, consisted mainly of inter-related, merchandise "stacker" and "picker" buildings with a combined distribution capacity of 10,478,000 cubic feet. Phase II of construction—utilizing essentially the same computer-controlled technology and structural components—added larger, though otherwise duplicate, stacking and picking buildings with a total of 14,710,000 cubic feet.

In addition, a bulk-storage and shipping wing, built to adjoin the original picker building and truck docks, contributed 6,025,400 cubic feet of conventional distribution facilities on the 90-acre site. In total, shipping and receiving capacity was more than doubled and the truck dock was extended so that 62 tractor-trailers could be loaded or unloaded simultaneously.

Canadian Tire's objective of converting ground coverage into maximum distribution capacity is being realized with our expansion of the automated, high-rise principle for the storage and retrieval of pallet-load units. Mississauga now encompasses 31.2-million cubic feet over a base totaling 681,470 square feet, versus Sheppard Avenue's 18.5-million cubic feet spread over a base of close to 1.0-million square feet—or 168.8 per cent of the latter's cube capacity compared to only 68.2 per cent of the floor area.

From the standpoint of operating efficiency, Mississauga Centre's computer-controlled installations equal the stock throughput of conventionally-racked warehouses three to four times as large. Reduction of aisle widths from 8 to 4½ feet—sufficient for automated storage/retrieval machines—reduces non-productive corridor space alone by 43 per cent. The 79-foot stacking height for pallet-load units dramatically exceeds the 20-foot maximum at the Sheppard Avenue facility, now being modified for products which require special handling because of size or shape. Mississauga Centre will concentrate on merchandise in complete carton lots.

Two operators, stationed at computer consoles, are able to control over 51,000 pallets of reserve stock in the two high-bay storage buildings. Automatic Towveyors and manual stacker cranes complete the incoming and outgoing cycles from the point where computer-activated machines perform their storage/retrieval function.

The modular design of construction at Mississauga to date facilitates the adding on of further modules to meet future distribution requirements. Canadian Tire was the first company in its field to build an automated hi-rise storage and retrieval facility for distributing retail merchandise and, as it now stands, the system is the largest of its type on the North American continent.

The fulfilment of our ambitions at Mississauga was highly dependent on the ingenuity and adaptability of personnel to overcome problems characteristic of any "breaking-in" operation. Working under pressure to meet commitments to suppliers and dealers alike, the Canadian Tire crew integrated the automated equipment and computerized systems to bring Mississauga Centre's additions on-line and operating as a highly-efficient distribution entity.

At our Sheppard Avenue Distribution Centre, further time-saving mechanization continued in two principal areas

Automated storage/retrieval machines handle pallet-load units.

in readapting systems to our current needs. A high-density storage and filling system, for small items, and a gravity-flow picking system, for "medium turnover" items, were brought on line without interruption to operations. New employee facilities were installed and other structural improvements effected in our continuing program of modifications to improve the plant's productivity.

Canadian Tire's truck fleet—the "pipeline" connecting our expanding distribution facilities with our widening retail market—was brought up to strength during the past year with the addition of 64 mobile units. Our 515-vehicle fleet includes 83 tractor-trucks, 430 trailers and two small vans. The red and white tractor-trailer combinations have become a familiar sight on Canadian highways as they deliver merchandise and supplies to our associate dealers—frequently returning to our distribution centres loaded with products picked up from suppliers along the route.

Cantire Products Limited—a remanufacturing subsidiary of the Company—reported increased revenues and earnings for the year which are included in our consolidated financial statements. Cantire employs over 200 people in its three

Steel racking towers 79 feet high in new "stacker" building.

Toronto plants which remanufacture automotive electrical parts, carburetors, fuel pumps, water pumps and brake components. The current trend toward extended car ownership, requiring a higher level of maintenance, has created a strong after-market for Cantire products. The company is actively pursuing other automotive components suitable for remanufacturing and has introduced a complete line of recycled brake calipers and engine distributors.

Interior of new bulk storage and shipping wing at Mississauga.

Stores, products and services add up to Canadian Tire's "total marketing" concept

Printed in Canada